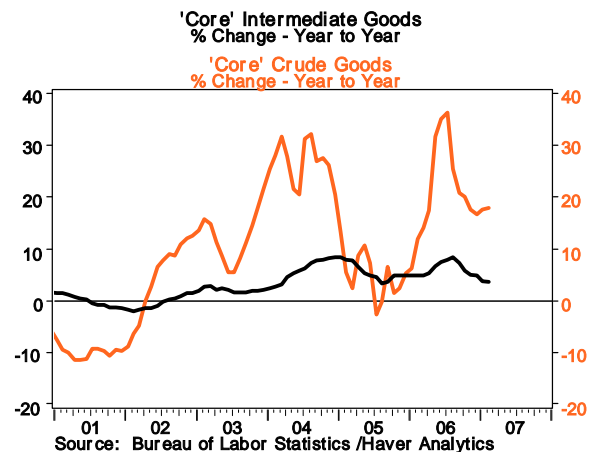
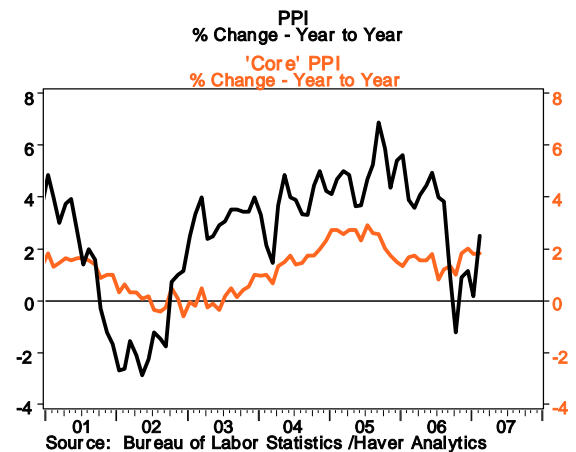


## FEBRUARY PPI

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- The Producer Price Index (PPI) increased 1.3% in February versus a consensus expected gain of 0.5%. The PPI is up 2.6% in the past twelve months and has climbed at an annual rate of 6.4% in the past three months.
- Most of the PPI increase in February was due to food and energy prices, which rose 1.9% and 3.5%, respectively. However, the core PPI was up 0.4% versus a consensus expected 0.2% gain. The core PPI is up at an annual rate of 3.0% in the past three months.
- Consumer goods prices increased 1.6%. Excluding energy, consumer goods prices rose 1%, the third largest one-month increase in more than 20 years. Prices for consumer goods ex-energy are up 3.5% versus a year ago. Capital equipment prices increased 0.3% and are up 2.2% versus a year ago.
- Core intermediate goods prices (ex-food and energy) increased 0.2% in February and are up 3.7% versus last year. Core crude prices increased 2.7% and are up 18.1% versus a year ago.

**Implications:** Today's data on producer prices show that inflation is still a problem. The Fed will not cut short-term interest rates in the near future. We continue to believe the next rate move by the Fed is likely to be up, not down. Other data out earlier today suggest economic strength, on balance. Initial claims for unemployment insurance fell 12,000 to 318,000 last week, well below the spike of 359,000 four weeks ago. Although the New York Federal Reserve Bank's Empire State manufacturing index fell to 1.9 in March from 24.4 in February, this index only dates back to mid-2001 and has yet to show a strong relationship with nationwide measures of manufacturing.



<b>Producer Price Index</b> <i>All Data Seasonally Adjusted</i>	<b>Feb-07</b>	<b>Jan-07</b>	<b>Dec-06</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <i>% Change</i>
<b>Finished Goods</b>	<b>1.3%</b>	-0.6%	0.9%	6.4%	1.0%	2.6%
<b>Ex Food and Energy</b>	<b>0.4%</b>	0.2%	0.2%	3.0%	2.8%	1.8%
<b>Food</b>	<b>1.9%</b>	1.1%	1.5%	19.0%	8.8%	6.8%
<b>Energy</b>	<b>3.5%</b>	-4.6%	2.2%	3.7%	-10.8%	0.6%
<b>Consumer Goods</b>	<b>1.6%</b>	-0.9%	1.1%	7.5%	0.4%	2.6%
<b>Capital Equipment</b>	<b>0.3%</b>	0.2%	0.1%	2.7%	3.0%	2.2%
<b>Intermediate Goods</b>	<b>1.1%</b>	-0.7%	0.5%	4.0%	-1.4%	2.7%
<b>Ex Food &amp; Energy</b>	<b>0.2%</b>	0.0%	0.0%	0.7%	-0.1%	3.7%
<b>Energy</b>	<b>4.5%</b>	-3.8%	2.5%	12.4%	-9.4%	-2.4%
<b>Crude Goods</b>	<b>8.9%</b>	-6.3%	2.8%	21.5%	9.5%	9.4%
<b>Ex Food &amp; Energy</b>	<b>2.7%</b>	1.6%	0.5%	21.4%	8.1%	18.1%
<b>Energy</b>	<b>13.7%</b>	-16.2%	5.6%	2.6%	-7.1%	-0.7%

Source: Bureau of Labor Statistics